



Suncor Energy Inc.'s Acquisition Binge Pays Off Big Time

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) continues to aggressively take advantage of the downturn in oil prices to expand. Not only is the company investing heavily to complete two major projects, but it continues to acquire additional interests in key oil sands assets, making its third such deal last week. These investments position the company to deliver strong oil production growth over the next few years, allowing it to really cash in on a future rebound in the price of crude.

Here we go again

Last week Suncor announced it had acquired an additional 5% interest in Syncrude from **Murphy Oil**. The [deal really comes as no surprise](#) after Suncor CFO Alister Cowen's recent comments that the company "continue[s] to look at M&A opportunities," specifically noting that "if there are opportunities to buy more of Syncrude at the right price, we would be interested. Same for Fort Hills."

Murphy Oil's stake in the project seemed like a very good target for Suncor given that Murphy was a small minority partner and had been selling off non-core assets to focus on its core unconventional development opportunities.

Murphy will now have more cash for those opportunities after Suncor agreed to pay \$937 million for the Syncrude stake, which will boost its ownership interest in Syncrude from 48.74% to 53.74%. That said, despite owning a majority stake in the asset, it won't seek to wrestle operatorship away from **Imperial Oil Limited**. Instead, it wants to work with Imperial Oil and its other partners to improve the reliability of the asset.

Ready to ramp

Suncor has now announced the acquisition of two additional stakes in Syncrude, which gives it more than half of that facility's 350,000-barrel-per-day output. That's in addition to boosting its stake in its Fort Hills development, giving it 50.8% of that facility's 180,000 barrel per day capacity when it starts producing at the end of next year.

These transactions, when combined with Suncor's other growth projects, are expected to grow its

production 40% (versus last year's average) by 2019 when the company expects to be producing 800,000 barrels per day.

That growth could be coming at a key time in the oil market given current projections of supply and demand. Due to the expected steep worldwide decline in production after two years of under investment by energy companies, oil prices could be much, much higher later this decade. Some even see oil heading back into the triple digits, especially if oil-field investment spending doesn't meaningfully improve next year.

It's this much-improved future outlook for the oil market that Suncor is taking advantage of with its buying binge, which puts the company on pace to deliver much higher production just in time for when the market is likely to be paying a lot more for oil.

Investor takeaway

Suncor knows low oil prices won't last forever, which is why it has been taking advantage of the current market to boost its ability to produce higher oil volumes in the future. As a result, it's now on pace to grow its production by 40% over the next few years. That growth could really pay off if oil starts to meaningfully recover by the end of the decade as more analysts now expect will happen, which could result in really strong returns for Suncor investors who have a long-term mindset.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

Category

1. Energy Stocks
2. Investing

Date

2025/08/14

Date Created

2016/05/04

Author

mdilallo

default watermark